

ITEM NO. CA13

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: February 8, 2022**

REGULAR CONSENT EFFECTIVE DATE January 1, 2021

DATE: January 28, 2022

TO: Public Utility Commission

FROM: Kathy Zarate and Curtis Dlouhy

THROUGH: Bryan Conway and Matt Muldoon **SIGNED**

SUBJECT: PORTLAND GENERAL ELECTRIC:
(Docket No. UM 1988(2))
Application for reauthorization of deferral costs associated with the
difference between Actual and Forecasted Qualifying Facilities
Commercial Operation dates.

STAFF RECOMMENDATION:

Staff recommends the Public Utility Commission of Oregon (Commission) approve Portland General Electric's (PGE or Company) Applications for Reauthorization of the Deferral of Costs Associated with the Difference between Actual and Forecasted Qualifying Facilities (QFs) Commercial Operation dates, one effective for the 12-month period starting January 1, 2021, and the other effective for the 12-month period starting January 1, 2022.

DISCUSSION:

Issue

Whether the Commission should approve the Company's requests for authorization to defer for later ratemaking purpose the annual differences between actual and forecasted QFs costs, in accordance with the methodology adopted in Commission Order Nos. 18-405 and 19-239.

Applicable Law

ORS 757.259 allows the Commission to authorize deferred accounting for later incorporation into rates. Specific amounts eligible for deferred accounting treatment with interest authorized by the Commission include identifiable utility expenses or revenues, the recovery or refund of which the Commission finds should be deferred in order to minimize the frequency of rate changes or the fluctuation of rate levels or to match appropriately the costs borne by and benefits received by ratepayers, ORS 757.259(2) (e).

In OAR 860-027-0300 (3), the Commission set forth the requirements for the contents of deferred accounting applications. Notice of the application must be provided pursuant to OAR 860-027-0300(6).

Unless subject to an automatic adjustment clause under ORS 757.210(1), amounts deferred under ORS 757.259(5) and OAR 860-027-0300 are allowed in rates only to the extent authorized by the Commission in a proceeding under ORS 757.210 to change rates and upon a prudence review and review of the utility's earnings

Analysis

Background

PGE filed the deferral applications at issue to support the QF Commercial Operation Dates (COD) track and true-up mechanism that is part of PGE's Automatic Update Tariff (AUT). The QF COD track and true-up mechanism is intended to address the uncertainty in power cost modeling associated with new QFs scheduled to begin operations during the forecasted AUT test year. PGE models QF contracts in its annual Net Variable Power Cost (NVPC) forecast to begin production based on the COD specified in the contract, which is selected by the Power Purchase Agreements (PPA) seller. The achievement of commercial operation triggers the applicable on/off-peak, avoided cost prices per the executed contract. New QFs, however, can encounter any number of constraints that might prevent them from achieving their scheduled COD. Variation in a QF's forecasted and actual costs related to CODs may arise for a number of reasons, including timing constraints related to permitting or constraints with third party transmission.

The Commission adopted the QF COD cost track and true-up mechanism in Order No. Order No. 18-405 and modified the mechanism in Order No. 19-239. The Commission approved PGE's first deferral request to implement the mechanism, for the deferral period beginning January 1, 2020 through December 31, 2020 in Order No. 19-441. PGE filed a request to reauthorize the deferral on December 29, 2020 for the deferral

period January 1, 2021 through December 31, 2021. PGE's most recent filing in this docket was on December 30, 2021, asking for reauthorization of the deferral for the deferral period starting January 1, 2022 through December 31, 2022.

Description of Expenses

Each year, in its NVPC forecast, the Company includes forecasted costs of purchasing the output of the new QFs based on their scheduled CODs. If a QF comes on-line before or after its scheduled COD, there are deviations in actual versus forecasted costs of purchases from the QF. The amount subject to deferral is the cost variation resulting from new QFs' actual CODs and their scheduled CODs. If approved, the Company proposes to submit an annual request for reauthorization of this deferral as CODs are modeled in each year's NVPC.

Reason for Continuing Deferral

Pursuant to ORS 757.259(2)(e) and Commission Order Nos. 18-405, 19-441, and 19-329, PGE seeks to continue to defer the difference between actual and forecasted QF costs to support the QFs COD track-and-true-up mechanism as authorized by Commission Order Nos. 18-405 and 19-329. Because QFs CODs are modeled in each year's NVPC forecast, PGE will continue to seek reauthorization of this deferral in subsequent years. The granting of this Application will minimize the frequency of rate changes and match appropriately the costs borne by and benefits received by customers

For 2021 and 2022, the QF tracking mechanism will operate in the following way as described in PGE's filing:

1. PGE files the enclosed reauthorization for deferred accounting application to defer the difference between actual and forecasted QF costs in in the test year to recover or credit the variance in QF costs in the subsequent power cost proceeding.
2. PGE will update the QF CODs through the final (November 15th) MONET update. PGE will update all project CODs through November 1st and make reasonable efforts to update any known changes to QF CODs between November 2nd and PGE's final November MONET update.
3. PGE will derate the expected generation of new QFs that have not been identified as having achieved commercial operation by PGE's final November 2022 MONET update. The energy derate will be based on the most recent four-year historical annual average of actual costs versus projected QF costs.
4. The variance to be refunded or collected from customers will be determined by re-running the final November 15 NVPC MONET forecast and replacing (1)

the estimated QF CODs with actual recorded CODs and (2) the forecast QF generation for projects subject to the derate in part 2) above with actual QF generation.

Proposed Accounting

PGE seeks approval to continue to defer the difference between actual and forecasted QF costs to support the QFs COD track-and-true-up method as authorized by Commission Order Nos. 18-405 and 19-329. In addition, for collection amounts, PGE proposes to record the deferred amount in FERC Account 182.3 (Regulatory Assets); crediting FERC Account 555, Purchased Power. For refund amounts, PGE would record the deferred amount in FERC 229 (Accumulated Provision for Rate Refunds); debiting FERC 449.1 (Provision for Rate Refunds). In the absence of deferral approval, PGE would record QF expenses to the appropriate FERC accounts.

Estimated Deferrals in Authorization Period

Authorizing the continuance of a deferral for the cost difference between actual and forecasted Qualifying Facilities (QFs) to support PGE's method to track and true-up QFs' Commercial Operation Dates (CODs), adopted by the Commission through Order No. 18-405 and subsequently revised through Commission Order No. 19-239.

Approval of PGE's reauthorization application will not authorize a change in PGE's rates, but will permit the Commission to consider allowing such deferred amounts in rates in a subsequent proceeding. As the amount subject to deferral is unknown, the company does not provide an estimate for the proposed reauthorization period.

Information Related to Future Amortization

- Earnings Review –The difference between costs associated with forecasted and actual QF online dates will be deferred and included in PGE's next scheduled NVPC forecast.
- Prudence Review – Prudence review should be performed at the time of deferral amortization.
- Sharing Percentages – All prudently incurred differences between costs associated with forecasted and actual QF online dates are to be included in PGE's next scheduled NVPC forecast with no sharing mechanism.
- Rate Spread / Rate Design – The deferred amounts will be spread based on an equal percent of generation revenue applied on a cents per kWh basis, as specified in Schedule 125.

- Three Percent Test (OAR 757.259 (6)) – The amortization of the pilots' deferral costs will be subject to the three percent test in accordance with ORS 757.259(7) and (8), which limits aggregated deferral amortizations during a 12-month period to no more than three percent of the utility's gross revenues for the preceding year.

Conclusion

Based on Staff's review of PGE's application, Staff concludes that the proposal represents an appropriate use of deferred accounting under ORS 757.259. Further, the Company's application for deferred accounting meets the requirements related of QFs mechanism adopted in Order No. 18-405 and 19-329.

PROPOSED COMMISSION MOTION:

Approve Portland General Electric's application for the authorization to defer differences between actual and forecasted Qualifying Facilities costs for the 12-month periods beginning January 1, 2021 and January 1, 2022.